

**Department of Alcoholic Beverage Control
Strategic Plan 2006-2008**

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Agency Strategic Plan

Department of Alcoholic Beverage Control

Agency Mission, Vision, and Values

Mission Statement:

The mission of the Department of Alcoholic Beverage Control is to control the distribution of alcoholic beverages; operate efficient, conveniently located retail outlets; enforce the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco products; and provide excellent customer service, a reliable source of revenue, and effective public safety.

Agency Vision:

The vision of the Virginia Department of Alcoholic Beverage Control is to enhance the quality of life for Virginia's citizens by balancing control, service, and revenue, in the distribution, sale, and consumption of alcoholic beverages.

Agency Values:

- **Integrity**
ABC team members are fair and truthful in our dealings with each other and with all those outside the agency with whom we interact. We obey the laws, rules and regulations governing our activities. We make our behavior an example of trustworthiness.
- **Loyalty**
ABC team members are committed to "do the right thing" for the welfare of the agency and the citizens of the Commonwealth. We achieve personal and professional growth by advancing the interests of the organization.
- **Excellence**
ABC team members demonstrate a passion to be the best. We provide quality, professional service, and expect it from each other. We strive for and encourage quality improvement through innovation. We try to exceed customer expectations. We perform our duties with enthusiasm.
- **Teamwork**
- ABC team members empower and support each other to accomplish agency goals. We treat each other with courtesy and respect. We anticipate the needs of others, encourage them to take risks, and help them to improve their skills. We candidly share with each other necessary or helpful information.

Agency Executive Progress Report

Current Service Performance

The Department of Alcoholic Beverage Control has a very diverse mission with an even more diverse customer base. Value creation services, or those that provide direct services to customers include: the control and distribution of alcoholic beverages, processing license applications, conducting enforcement and adjudication activities, accurately accounting for over a half a billion dollars in revenues and a host of integrated internal support processes.

ABC adopted the Malcolm Baldrige National Quality Award criteria as its management model several years ago. In 2004 and 2005, ABC applied for review by the Virginia Senate Productivity and Quality Award and both years received the Certificate of Performance Excellence, the first of three levels of recognition. In the 21-year history of the award, only three other state agencies have received this award. Today, ABC continues to utilize the Baldrige criteria to shape the management of the organization. On an annual basis, senior leaders review the criteria and identify the most significant gaps that need to be addressed. For example, ABC's planning program now uses extensive customer and market data gathered through multiple channels to support the strategic planning process. Focusing attention on improvements that matter most to stakeholders puts ABC in a position to use its limited resources efficiently.

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Since adopting this management philosophy, performance continues to improve in all areas. Compliance with youth access to alcohol and tobacco continues to show improvement, increasing from 77% in 2002 to 91% in 2004. In ABC stores, compliance rates are even higher, exceeding 97% in 2004. The timeframe for processing applications for licensees improved 17% between 2002 and 2004 and the processing of hearings cases showed similar improvements. Despite being in a regulatory environment, customer surveys indicate licensee satisfaction exceeds 93% with a similar amount believing ABC agents provide clear guidance about how to maintain compliance with state law and agency regulations.

Store customer satisfaction is also very high, exceeding 91%. Between 2002 and 2004, ABC opened 51 new store locations, which means over 90% of Virginians are within 10 minutes of an ABC store. At the same time, ABC modernized 38 locations and expanded the number of products available for sale leading to high marks from customers in the areas of product availability, convenience of locations, hours of operation and store layout and design. The increase in service quality generated significant increases in revenues and profitability. Between 2002 and 2004, sales increased 21% and revenues returned to the Commonwealth increased 26%. At the same time, ABC places a very high priority on fiscal accountability. Through strong internal controls and effective process management, ABC has received no written audit points from the Auditor of Public Accounts in each of the last three years.

Productivity

As an Enterprise Agency, ABC operates much like a private business using performance metrics to monitor activity throughout much of the organization. In the warehouse and store environment, ABC monitors such elements as cases shipped per labor hour, cost per case shipped, units sold per labor hour, sales per square foot, return on sales, and other expense to sales ratios. In addition to trend analysis, ABC also compares its performance to similar state operations and private sector liquor store operations. In 2004, ABC's 293 stores handled over 20 million customer transactions. Sales per square foot increased to \$535 per square foot (even with the growth in the number of stores), and average return on sales has grown from 29% to 32% between 2002 and 2004. ABC's sales per square foot exceeds that of private liquor stores and is on par with most major retail chains.

Productivity increases in ABC's enforcement operation are much more difficult to measure and often misleading. One possibility is to review agent activity (e.g. licenses issued) per man-hour. While in recent years, per man-hour activity appears to improve, it is largely due to excessive staff turnover of sworn personnel. A 20% reduction in ABC's enforcement budget, large numbers of retirements, increased per-agent workloads and severe salary competitive issues with other local and federal law enforcement agencies caused this turnover. As a result, the number of sworn positions has fallen to its lowest level in many years despite a growing population and customer base. While ABC was able to stem the tide in 2004 with a retention bonus, continued departures are expected to resume in 2005 that will contribute to reduced effectiveness in meeting the service and public safety goals of the agency.

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Major Initiatives and Related Progress

ABC continues to use the Baldrige criteria to lead, plan and manage its operation. As part of this effort, ABC also uses Kaplan and Norton's Balanced Scorecard to monitor performance in the areas of public safety, customer service, revenue generation and accountability, human resource management, and process improvement. For public safety, ABC's strategic priorities have included the aggressive promotion of zero tolerance for underage access and consumption of alcohol and tobacco as well as the promotion of responsible consumption by adults.

- **Effective Public Safety**

Throughout the last few years, reductions in funding in the Bureau of Law Enforcement caused significant turnover and vacancies, and moving several regional offices to the storerooms of nearby ABC stores. Despite the limitations in staff, ABC has still conducted over 10,000 underage compliances checks of businesses, and conducted training for thousands of licensees and servers of alcohol, and continued its long-standing work with the Youth Alcohol and Drug Abuse Prevention Project (YADAPP), and the College Alcohol Leadership Council. These last two efforts are partnerships between various state agencies, educational institutions and ABC that have continued to shape alcohol abuse prevention efforts for the last 20 years. Virginia has been recognized as a national leader in alcohol prevention and education, winning the National Liquor Law Enforcement Associations award for most innovative program for the comprehensive, environmental approach to prevention. ABC's Education Section distributes over 200,000 pieces of literature annually to licensees, schools, and the general public.

Prevention and education services provided by ABC include specialized training, free educational materials, and direct monetary grants. Training examples include training to local law enforcement agencies on the alcohol laws, annual conferences designed to coordinate college prevention efforts, and direct programming such as Seller/Server Training for ABC licensees. Hundreds of thousands of posters, brochures and other printed materials are available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library.

Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.

Increasing the rate of compliance of ABC stores with ABC's ID checking policy and underage sales laws has also been a priority because of the high number and frequent turnover of part-time store clerks. To address this issue, ABC utilizes an in-house training program called Retail 101 to provide clerks with training on how and when to check ID's. ABC's policy is to request identification when customers appear to be under the age of 30.

- **Excellent Customer Service**

In the area of customer service, the two most important priorities for this biennium have been the expansion of the store network and the automation of the central warehouse. Throughout most of the 1980's and 90's, the number of ABC stores remained constant as the population of Virginia grew. During the last four years, ABC expanded its network using a sophisticated planning model that uses a combination of geographic, demographic and financial analysis to identify specific locations that can increase service and maximize profitability. Presently, the population served by each ABC store is equivalent to levels in the mid-80's and will continue to improve through the end of FY 2006. At the same time, ABC created a design team to develop a more professional look for existing stores. During the last three years, 38 stores have been modernized or relocated and numerous others have received additional lighting to improve the shopping environment.

One of the most critical issues for ABC has been the capacity and throughput constraint of the central warehouse in Richmond. The growth in the number of items available for sale, the increase in sales volume, the increase in number of stores, and the instability of the warehouse workforce created significant issues that

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impact customer service and revenues. In 2004, ABC utilized a distribution consultant to analyze its throughput and capacity limitations and develop an RFP for racking and automating the 300,000 square foot central distribution center. Presently, the system is under construction and is slated to begin operation in August 2005. The new system significantly expands storage capacity for existing and new items and will use automation to improve labor productivity and reduce injuries that result in lost time from work, medical expenses and increasing insurance premiums.

- **Revenue Growth**

Growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state and localities. In fiscal year 2005, ABC's sales will top \$500 million and total revenue contributions for the state and localities will exceed \$250 million for the first time in ABC's 71-year history. At the same time, ABC gives equal weight to maintaining the public's trust and protection of agency assets through strong internal controls and compliance with generally accepted accounting principles.

- **Employee Management & Development**

A critical part of the balanced scorecard is the management and development of the workforce. In this area, ABC's priorities have included stemming the tide of departures in sworn-enforcement personnel, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. As required by the Baldrige criteria, ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses a biennial survey based on a survey of organizational health developed by the state of Texas. ABC supplements this information with employee focus groups that provide further detail on issues of importance to employees. The leadership team then reviews employee concerns and issues and develops an action plan for issues that can reasonably be addressed. For example, in response to an issue relating to communication, ABC started an email bulletin that each employee receives as frequently as weekly.

- **Process Management**

Another significant opportunity identified through the annual Baldrige assessment was to develop additional skills in process management and improvement. ABC partnered with Chesterfield County and the Philpot Manufacturing Extension Partnership to develop a process improvement-training program for its employees. The inaugural class has completed its course work and is currently working to complete process improvement projects such as evaluating ways to improve minority procurement. ABC's ultimate goal is to require all process owners to complete this training, document and flowchart all agency processes,

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Virginia Ranking and Trends

In preparing the application for the Senate Productivity Award, ABC conducted extensive benchmarking of other state and national operations. As an integrated liquor control operation, Virginia enjoys the benefits of housing under one roof: the control over the distilled spirit wholesale and retail distribution chain, licensing, education and law enforcement, which leads to significant synergisms.

In the area of public safety, one of ABC's primary measures is the underage sales compliance rate or the rate that businesses sell to an underage decoy. ABC's compliance methodology relies on statistical random sampling to identify businesses for audit and requires minors to present identification if asked. ABC stores are held to the same standards as private businesses with all stores checked annually. ABC's retail operations continue to set the benchmark for others to follow. Currently, state stores are 97% compliant while private sector stores are at 85%. These rates are significantly better than national averages that have remained at 77% for the last two years. Compliance rates for the underage purchase of tobacco have remained at 90% for the last two years, on par with the national average.

Per capita consumption of distilled spirits is approximately one gallon per year, 20% lower than the national average. Virginia ranks 43rd in lowest per capita consumption of distilled spirits. Consumption of wine and beer are on par with national averages as is the percentage of traffic deaths that are alcohol-related.

In the area of customer service, the density of store locations, the depth and breath of products available for sale, and standard financial ratio metrics are the best opportunity for comparison. For store density, ABC evaluates the number of outlets relative to population and area. Currently, Virginia has one ABC store per 25,000 people and six stores per 1,000 square miles. Both are less than half of states with privately operated stores, which is directly correlated to Virginia's lower consumption rates. Random surveys of Virginia citizens by Virginia Commonwealth University indicate citizens overwhelmingly support Virginia's current liquor distribution model and do not wish to see liquor available in grocery, drug and convenience stores. In the area of product availability, direct comparisons are difficult because of the large variations between state-run operations. Virginia's distilled spirit product line, however, is 27% larger than operations in West Virginia, North Carolina, Maryland and Pennsylvania. Accurate comparisons to the private sector are not available.

Improvements in services occurring in recent years prompted a corresponding increase in sales. Using 1999 as a base, dollar sales for Virginia ABC have increased 52%, outpacing the closest comparable states of North Carolina (27%) and Pennsylvania (39%). This sales increase is due in part to three price increases mandated by the General Assembly in 2003 and 2004 in addition to increases in per capita dollar purchases that have grown 44% over the same time period (means customers are purchasing more expensive merchandise). ABC also uses standard financial ratio comparisons to analyze performance. In this case, all key ratios such as expense to sales, return on sales, return on inventory, etc. show positive growth and outpace comparative operations. Overall, Virginia's per capita distilled spirit revenues rank ninth in the country despite its low per capita consumption rate.

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Customer Trends and Coverage

Of the approximately 5.3 million legal age Virginians, approximately 50% consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 20 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases.

Population and economic growth and changing demographics are the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow by approximately 600,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores. Historically, this growth has been focused between Northern Virginia and Tidewater, leading to a significant expansion of the store network in these areas. Consumption patterns also play an important role in ABC services. The number of distilled spirit products available in the marketplace has grown tremendously in recent years, which is contributing to slight increases in store size to ensure enough space is available to carry products to meet customer demand. At the same time per capita dollar and volume purchases have increased slightly in recent years and is expected to continue during the planning horizon.

As the sole regulatory authority over the manufacture, transportation, distribution, sale and consumption of alcoholic beverages in Virginia, primary customers also include the 14,000 businesses licensed to sell alcoholic beverages in the Commonwealth. Among these are 3,600 restaurants required by statute to purchase distilled spirits from ABC stores. Population growth, as well as economic factors, influences the growth in the number of licensed establishments. The location of this growth has a significant influence on the number of ABC special agents needed in specific localities. While ABC conservatively forecasts that the number of licensees will grow between 1,000-2,000 during the next ten years, the health of the economy can influence workload through license turnover, increased crime, etc.

ABC promotes zero tolerance for the underage consumption of alcoholic beverages and thus focuses on the approximately 1.8 million Virginian's under the age of 21. According to the Journal of the American Medical Association (JAMA), those under 21 consume 20% of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer).

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. While approximately 80% of the drinking population does so in a responsible manner, the remaining 20% consumes 83% of the alcoholic beverages sold in the United States (JAMA). In Virginia during 2003, there were over 27,000 convictions with an average Blood Alcohol Content of .1367. (.08 is the legal limit)

ABC's other customers include other state, local and federal government agencies, other law enforcement agencies, public and private K-12 schools and colleges, and numerous prevention groups. In addition, ABC has a significant number of indirect customers including distilled spirits vendors, trade association representatives, landlords, and members of the media. The exact number of these stakeholders is not available at this time but can vary by group.

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Future Direction, Expectations, and Priorities

ABC's future direction will continue to be centered on its mission and strategic goals of Public Safety, Customer Service, Revenue Growth & Sound Business Practices, and Employee Management and Development. In the area of public safety, continued emphasis is on reducing youth access to alcoholic beverages and tobacco products (particularly through older friends and relatives) and maintaining the high rate of compliance by ABC stores.

In the area of customer service, ABC will continue to focus on improving customer satisfaction by opening new stores, improving the number of stores meeting service and design standards, and ensuring that products in demand are available for sale. In the area of new stores, the rate of increase will slow significantly in 2007 and 2008 as ABC seeks only to maintain service levels with population growth. ABC's priority will shift from opening new stores to improving the shopping environment in existing stores through the development of a set of consistent design standards. ABC's enforcement and adjudication functions also have a role in improving customer service. ABC will continue to focus on improving license application processing time, violations and hearings processing time and expanding licensee interactions with agents through increased inspections.

Managing agency revenue growth, internal controls and business processes will also continue to be a priority for the agency. While changes in customer service drive revenue growth, managing expenses is also a significant factor in generating increased profit transfers. One of ABC's primary initiatives is to manage its business according to the requirements found in the Baldrige-based Senate Productivity and Quality Award. In 2004 and 2005, ABC received the Certificate of Performance Excellence but is striving to achieve medallion status by the end of the biennium. Achieving medallion status requires exemplary approach and deployment to manage and improve Organizational Leadership, Strategic Planning, Customer and Market Focus, Information and Knowledge Management, Work Force Management, Process Management that lead to tangible and sustained results.

Based on feedback received from outside examiners, ABC is concentrating on improving its core and support business processes through documentation and the application of standardized process analysis techniques. To support this initiative, a comprehensive data warehouse is currently under construction that will allow process owners to develop better performance metrics for these processes. Other areas of importance that need to be addressed are the breadth of use of performance metrics throughout the agency and the management and development of the agency's workforce.

Other priorities for the future include utilizing technology to expand business opportunities into e-commerce, upgrading telecommunications services, improving supply chain management and internal systems efficiency and reliability, and standardizing business analysis and reporting tools. Last, ABC understands the value of utilizing small, women and minority-owned firms and is currently using a process action team to identify specific strategies necessary to improve participation.

Impediments

One of the most important issues facing ABC is ability to attract and maintain a qualified work force. Salary compression and inversion and a lack of competitiveness with other employees is causing significant turnover in critical areas such as law enforcement, store operations and others. Failure to address the issue will lead to a reduction in service delivery and increased costs of operation.

Like any state agency, funding is a continuing issue. As a non-general fund, Enterprise Agency, ABC does not receive any general funds. In ABC's case, the Appropriations Act does not allocate actual funds but grants authority to spend revenues generated through operations. Many of ABC's initiatives require additional authority to spend in order to improve services and generate additional profits for the Commonwealth. The opening of new stores is a prime example of this type of investment. Increasing ABC's appropriation in recent years has allowed ABC to significantly improve services to the citizens and generate incremental gains in profits.

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Agency Background Information

Statutory Authority

The primary mandates for agency operations are found in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

- Chapter 1: Definitions & General Provisions
- Chapter 2: Administration of Licenses
- Chapter 3: Prohibited Practices
- Chapter 4: Wine Franchise Act
- Chapter 5: Beer Franchise Act

The vast majority of the Department's mandates are covered in §4.1-103, General Powers of Board. Some of these powers include:

- Buy, import and sell alcoholic beverages other than beer and wine not produced by farm wineries, and to have alcoholic beverages other than beer and wine not produced by farm wineries in its possession for sale.
- Control the possession, sale, transportation and delivery of alcoholic beverages;
- Determine, the locations and localities where government stores shall be established or operated.
- Maintain warehouses for alcoholic beverages and control the storage and delivery of alcoholic beverages to and from such warehouses.
- Lease, occupy and improve any land or building required for the purposes of this title.
- Determine the nature, form and capacity of all containers used for holding alcoholic beverages to be kept or sold under this title, and prescribe the form and content of all labels and seals to be placed thereon.
- The Board may hold and conduct hearings and authorize any Board member or agent of the Board to hold and conduct hearings, issue subpoenas, administer oaths and take testimony there under, and make summary decisions, subject to final decision by the Board, on application of any party aggrieved.
- Promulgate regulations in accordance with the Administrative Process Act, in the following areas: procedural rules for conducting hearings before the Board, advertising, relationship between retailers and wholesalers, manufacturers, wholesale and retail operations and requirements for product approval,
- Grant, suspend, and revoke licenses for the manufacture, bottling, distribution, importation, and sale of alcoholic beverages. Assess and collect civil penalties and civil charges for violations of this title and Board regulations.

The ABC also has implicit mandates relating to other functions of government. These include:

- Complying with central state agency requirements such as those promulgated by the Department's of General Services, Human Resource Management, Accounts, Planning & Budget, Virginia Information Technology Agency, Treasury and others.
- Complying with federal requirements such as Americans with Disabilities Act, Bureau of Tax and Trade, and others related to federal labor law.

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Customer Base:

Customer Description	Served	Potential
ABC Licensees	14,000	14,000
ABC Store Customers (annually transactions)	20,000,000	2,700,000
City & County Law Enforcement Agencies	113	113
Colleges & Universities	72	72
Federal Law Enforcement Agencies	9	9
Liquor Vendors	149	149
Local City & County Governments	113	113
Prevention Groups (Community Service Boards)	40	40
Schools K-12 public and private	0	0
State Government Agencies	20	20
Trade Associations	15	15
Vendors & Suppliers other than liquor	5,000	0

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Anticipated Changes In Agency Customer Base:

ABC's customer/stakeholder base is quite diverse with often competing requirements between control, service, and revenue. Active communication is the key element to maintaining a harmonic balance between constituent groups. ABC has established strong contacts with its constituencies and actively pursues input through multiple channels such as surveys, open-meetings, newsletters, etc. With the continual balancing of what may seem to be conflicting goals, ABC considers the interests of the multiple stakeholders in the strategic planning process and the development of strategic issues and action plans that are focused on the agency's broad goals rather than functional areas.

Of the approximately 5.3 million legal age Virginians, approximately 50% consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 20 million customer transactions including those made to mixed beverage licensees, which accounts for 20% of ABC's total sales volume.

ABC's other customers include other state, local and federal government agencies, other law enforcement agencies, public and private K-12 schools and colleges, and numerous prevention groups. In addition, ABC has a significant number of indirect customers including distilled spirits vendors, trade association representatives, landlords, and members of the media. The exact number of these stakeholders is not available at this time but can vary by group.

ABC considers its suppliers part of its customer base. The largest and most important supplier group are the 149 vendors those who supply the products sold through ABC retail outlets. ABC has created a virtual partnership with these suppliers through the use of bailment warehousing. Under this arrangement, vendors own and independently maintain stocks of inventory in ABC's warehouse for those products sold in ABC stores. The key element in this relationship is the ability of the vendor to maintain adequate supplies of inventory based on forecasts of expected depletions from inventory. This partnership also extends to the store. Vendors actively promote their products via price discounts, promotions and in-store displays.

Part of ABC's mission is to promote zero tolerance for the underage consumption of alcoholic beverages, which creates an additional customer base of approximately 1.8 million Virginians under the age of 21. According to the Journal of the American Medical Association, those under 21 consume 20% of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer).

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. While approximately 80% of the drinking population does so in a responsible manner, the remaining 20% consumes 83% of the alcoholic beverages sold in the United States (JAMA). In Virginia during 2003, there were over 27,000 conviction with an average Blood Alcohol Content of .1367. (.08 is the legal limit)

ABC's primary customers also include the 14,000 businesses licensed to sell alcoholic beverages in the Commonwealth. Among these are 3,600 restaurants required by statute to purchase distilled spirits from state stores.

Anticipated Changes in Base

In the next 10 years, the census bureau forecasts Virginia to grow by approximately 600,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores.

Demographic and economic growth is the primary driver of changes to ABC's customer base.

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Population growth, as well as economic factors, influences the growth in the number of licensed establishments. The location of this growth has a significant influence on the number of ABC special agents needed in specific localities. While ABC conservatively forecasts that the number of licensees will grow between 1,000-2,000 during the next ten years, the health of the economy can influence workload through license turnover, increased crime, etc.

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Agency Products and Services:

Current Products and Services

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the annual issuance of 14,000 licenses to sell wine and beer to retail establishments and restaurants for the wine, beer and spirits. In addition, over 10,000 licenses are issued annually for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted annually on 2,500 new business license applications, in addition to a thorough corporate investigation to insure suitability to be issued an ABC license.

ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores and underage sales of tobacco products by retail businesses.

A wide range of other compliance activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and numerous other violations of state laws and regulation. ABC agents work collaborative with local, state and federal law enforcement groups in these investigations. Agents also serve on state and federal task forces investigating anti- drug and other criminal activity. Prevention and education services provided by ABC include specialized training, free educational materials, and direct monetary grants. Training examples include training to local law enforcement agencies on the alcohol laws, annual conferences designed to coordinate college prevention efforts, and direct programming such as Seller/Server Training for ABC licensees. Hundreds of thousands of posters, brochures and other printed materials are available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library.

Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention. All of these prevention programs are designed to increase awareness of ABC laws and regulations and promote responsible selling, serving and consumption of alcoholic beverages

ABC's public safety mission is also apparent in the stores environment. Direct services include the aggressive prevention of sales to underage and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.

Quality customer service for ABC involves many of ABC's service areas. In the retail stores, ABC has focused attention on providing convenient locations to Virginia's growing population. Using a sophisticated planning model that includes GIS mapping technology, ABC has opened 38 stores in the last three years and is planning on continuing with growth in the next biennium (but at a slower rate). ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores.

In addition to public safety and customer service, ABC has evolved into a significant source of revenue resulting from store sales, license fees, penalties, and collection of taxes from wine and beer wholesalers. In fiscal year 2005, ABC's sales exceeded \$530 million and total revenue contributions for the state and localities exceeded \$250 million for the first time in ABC's 71-year history. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with

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generally accepted accounting principles and state administrative procedures.

Factors Impacting Agency Products and Services

- **Increasing population**

The continued growth in revenue and profits is directly correlated to store expansion and remodeling with the ability to carry products in demand by consumers. As population and demographics change, store locations will need to adjust accordingly. For example, in Northern Virginia the population is projected to significantly increase which translates to the need for the placement of additional retail stores. New stores are expected to continue to be the cornerstone for sales growth. Continued funding for new store openings and store modernization is necessary to continue the demonstrated sales revenue increase. Increasing population also impacts regulatory requirements through growth in the number of licensed establishments as well as increasing numbers of legal, underage and irresponsible consumers.

- **Changing marketplace**

The overall retail environment influences the public's expectation of ABC's shopping environment. Survey and comment cards indicate that customer's desire improved lighting and appearance of ABC stores to make them more like a private retail establishment. In addition, the growth in distilled spirit products in the market place means ABC has to adjust the breadth and depth of its product line to meet customer demand and maintain sales growth.

- **Expense Inflation**

Like any business, changes in expenses can influence ABC's ability to generate profits. Some expenses such as the purchase of additional merchandise, capital investments in infrastructure, and the opening of new stores can contribute to positive revenue growth. Other expenses such as General Assembly mandated pay raises and changes in health care costs, mandatory rent escalations, and fuel increases are a significant source of expense inflation that serve to reduce profitability.

- **Pending litigation/legislation**

ABC is a party to a lawsuit currently before the Fourth Circuit Court of Appeals. In the initial court proceeding, certain portions of the ABC Act were ruled to be unconstitutional. Among these were the provisions restricting ABC's product line to only distilled spirits and Virginia Wine. It appears one of two courses is possible, 1) removing all wine products from ABC stores, or 2) allowing state stores to carry a broader selection of alcoholic beverages. In anticipation of this ruling, ABC is not replenishing wine supplies and most stores are completely depleted.

- **Budget reductions**

A 20% reduction in ABC's enforcement budget at a time of growth in customer base has contributed to a decline in services. Excessive workloads and a lack of salary competitiveness with other local and federal law enforcement agencies caused the number of sworn positions to fall to its lowest level in many years, causing employee morale issues and service quality and effectiveness. While public safety compliance has been maintained in the short-run, the growth in licenses and population make it unlikely that this will be maintained given the high rate of employee turnover.

Anticipated Changes in Agency Products and Services

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. By the end of FY 2008, the number of ABC stores should exceed 340 to maintain service levels throughout the next biennium. ABC also expects continued growth in the variety of products offered in the marketplace and individual ABC stores that may necessitate slightly larger store sizes in the future.

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process. ABC expects to explore the feasibility of additional opportunities such as other license applications, licensee ordering, and retail sales to the public. The primary driver of these

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opportunities will be the financial viability of the proposal taking into consideration process efficiencies and the increased cost of credit card processing.

While ABC is not planning any significant changes in services related to the Enforcement and Regulation of Alcoholic Beverages, significant work force issues will hamper licensing services and the effectiveness of public safety operations.

Agency Financial Resources Summary:

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. The state budget gives ABC the authority to spend in four services areas: Enforcement and Regulation of Alcoholic Beverage Control Laws, Administration and Support, Alcoholic Beverage Retail Stores, and Alcoholic Beverage Purchasing, Warehousing and Distribution. The Appropriations Act mandates a series of profit transfers to other state agencies as well as general funds, counties, cities and towns on a per capita basis.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$0	\$444,768,931	\$0	\$444,768,931
Changes To Base	\$0	\$6,347,721	\$0	\$26,863,471
AGENCY TOTAL	\$0	\$451,116,652	\$0	\$471,632,402

Agency Human Resources Summary:

Human Resources Overview

ABC currently employs a diverse workforce, with approximately 936 classified employees, 1,530 wage employees, and 15 contractors. These 2,481 agency employees work throughout the Commonwealth operating 300 retail stores, and seven regional offices. Approximately 300 employees are located in Richmond at the central office and warehouse facility.

The demographics of ABC's workforce are generally consistent with the overall state workforce. Nearly 68% of all employees are over the age of 40, 45% are female and 35% are minorities. The average age of an ABC employee is 46 years old, with an average length of service at 13 years. ABC has a high number of retirement-eligible employees: 228 employees (24% of FTE positions) within the next six years and an additional 88 employees (10% FTE positions) eligible within 10 years.

Wholesale/Retail is the agency's largest division, accounting for nearly 1,800 classified and wage positions, or 75% of the workforce. The division is comprised of the stores (currently at record 301) and the warehouse. The warehouse employs nearly 50 employees, both classified and wage, and continuously recruits for Order Selectors. The warehouse is responsible for "picking" or filling orders by the stores for cases of alcohol, and then loading the trucks for delivery. Turnover rate for the warehouse is high at 69% due to the manual requirements of the work environment and a high level of worker's compensation injuries. The Wholesale/Retail division has an annual turnover rate of 47% for wage employees and 9% for classified employees, both above industry and state averages.

The Enforcement division is the second largest division at ABC, consisting of over 350 sworn and civilian employees (168 classified and 185 wage). The Bureau is comprised of Field Operations (agents and support staff), Security, Tax Management, Licensed Records Management, and Education and Compliance. As the name implies, the division is responsible for ensuring the laws and regulations pertaining to alcoholic beverages and tobacco are upheld. Employees issue licenses for individuals and

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establishments, conduct comprehensive investigations and sting operations (some of which lead to arrests), participate in hearings for violations of state alcohol laws, and collect fees. Approximately 140 classified employees are sworn agents with full police authority, and almost all of the wage employees are Student Undercover Agents (civilian) used for the Underage Buyer Program. Turnover rate for this division grew from an overall rate 11% in FY 03 to 32% in FY 04, with 16% turnover rate for classified positions. This necessitated the use of a retention bonus to stem the tide of departures. Once the retention agreements expire, this trend is expected to continue unless compensation adjustments are made.

The remainders of the ABC's positions are contained in the Richmond Central Office that performs functions such as Information Technology, Financial Management, Property Management, Public Relations, Human Resources, Policy, Analysis & Support Services and Internal Audit. Turnover and vacancy rates for these areas are highly variable, ranging from 0-50%.

Full-Time Equivalent (FTE) Position Summary

Effective Date: 5/31/2005

Total Authorized Position level	962
Vacant Positions	41
Non-Classified (Filled).....	4
Full-Time Classified (Filled)	936
Part-Time Classified (Filled)	
Faculty (Filled)	0
Wage	741
Contract Employees	15
Total Human Resource Level	

Factors Impacting Human Resources

The high number of retirement-eligible employees: 228 employees within the next six years and an additional 88 employees eligible within 10 years is of significant concern for ABC's senior managers. Retention efforts and training initiatives have become even more critical, as the age of the agency's workforce significantly impacts the number of retirements, and the external market obtains a greater competitive advantage.

Based on the projected growth of the agency, 40 new stores are expected within five years and an additional 20 new stores within ten years. The continued growth in the number of stores creates the need for additional staffing for wage and classified positions. The growth in the number of stores along with corresponding increases in sales volume creates some minor staffing adjustments at the central office to ensure that necessary infrastructure requirements are addressed.

With a projected increase in the number of licensees (3% - 5% per year), the agency needs additional agents to ensure laws and regulations are being followed through proper enforcement and education. ABC agents receive specialized training and possess full police authority, thus prompting local law enforcement agencies to request assistance from our agents on an increasing basis. The budgetary reductions over the past two years have also placed our Enforcement division in jeopardy of a decrease in compliance and more agents are leaving for jobs with higher salaries and fewer responsibilities in other state, local and federal law enforcement positions.

The turnover at ABC is considerably higher than the industry norms. Average turnover for the retail industry is 29%, however ABC retail wage positions have a turnover rate of 47%. Turnover for state and local government averages at 7% and ABC average is 12% with higher rates for the Enforcement Division (16%) and the Information Technology Division (20%). Each year, the agency experiences recruiting

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challenges for several specific positions. Typically, wage employees for the Stores division are difficult to find and retain. In the recent past, hard-to-fill classified positions have included IT Programmer/Analyst (Information Technology Specialist II), Payroll Technicians (Administrative Office Specialist III), Maintenance Repair Worker (Trade Tech. III), Master Mechanic (Trade Tech IV), Graphic Designer (Media Specialist III), Special Agent (Law Enforcement Officer II), and Order Selectors (Stores and Warehouse Specialist II).

One of the most critical drivers of turnover relates to employee compensation. Recent studies have demonstrated that state employees are compensated, on average, 10% - 20% below the private sector in comparable industries. In addition, significant salary compression and inversion situations as well as other internal inequities exist. Both issues have had a significant negative impact on ABC employees, and over 50% of all turnover, due to voluntary resignations, is a result of a new job with a higher salary. For ABC, competitors for employment include most retail establishments (store employees), local and federal law enforcement agencies (sworn agents), IT and Fortune 500 companies (IT staff), and other state agencies (Central Office employees).

Anticipated Changes in Human Resources

Given the volume of growth expected in the stores, the agency projects at least 70 new classified positions within the next five years and another 20 new classified positions within the next ten years. Wage employees will need to increase substantially, and 30% of retirement-eligible employees will retire within five years, jumping to 50% in ten years. Key positions identified for succession planning include Regional Managers (most are expected to retire), Director and Assistant Director positions.

Recent state legislative action regarding Sunday sales has resulted in 50 ABC stores opening for business on Sundays, beginning July 4, 2004. If sales on Sundays meet or exceed projections, it is possible that the General Assembly may pass further legislation expanding the number of ABC stores operating on Sundays. This will result in increased recruitment and retention efforts, as additional P-14 staff will be needed to fill gaps where current employees are unable to work, refuse to work or leave the agency.

Due to expanded operational requirements, population growth, an increase in the number of ABC retail stores and an increase in the number of licensees, Enforcement will need to add 15 new agent positions; eight classified Licensing Technicians (currently a new wage position), three additional Security Officers, and will need additional Student Undercover Agents. In addition, the division anticipates 40 retirements within the next five years, with another 20 retirements in ten years. In addition to special agents, key positions that will need to be replaced include Special Agents in Charge (SAC) and Assistant Special Agents in Charge (ASAC).

A more detailed breakdown of the agency's human resources, issues, and plans can be found in the agency's Department of Alcoholic Beverage Control Workforce Plan 2004.

Agency Information Technology Summary:

Current State / Issues

Information Technology Summary

Current State/Issues:

ABC's information technology environment must enable the Agency's mission of control, service and revenue production. The Information Technology Services Division (TSD) is responsible for developing specialized internal support systems, procuring applications and programs that support agency requirements, maintaining hardware and software, and providing help desk services to all ABC facilities throughout the state. All ABC's major systems are considered "out of scope" by VITA due to their specialized use (e.g. cash register systems).

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Department of Alcoholic Beverage Control

ABC's major systems include: Point of Sale System (Cash Registers), MOVE (Warehouse Management), MIPS (Inventory Management System), Material Handling, WEBCORE (License Management System), RMS/IBR (Enforcement Records Management), and FMS (Financial Management System for accrual accounting). Most of ABC's unique applications are: Java based, internally developed and tightly integrated into environment through multiple interfaces.

ABC uses a structured process for software development and implementation that includes: requirements definition, design, coding, independent quality assurance and end-user testing, and production. Rational™ tools used for documentation and separate environments are used for: development, testing and production.

Applications change often because of: statutory or regulatory changes, new functional business requirements, data interchange requirements, supplier and external requests, and security updates. Because of ABC's integrated development environment, rapid change is the expected reality.

The environment will:

- Support over 325 stores in the future with near real-time automated information and without major upgrades to network or support staff,
- Support extended store hours and seven day per week sales,
- Operate upgraded warehouse facilities, including conveyor systems and hands-free scanning systems,
- Support an increase in warehouse throughput,
- Provide secure web-based access by vendors to agency inventory information for replenishment actions,
- Support web-based e-commerce services for licensees and customers for ordering products
- Provide secure high-speed web-based access to agency information for field enforcement agents,
- Provide agency web-based historical, financial, and statistical information using data warehouse technology,
- Support upgraded automated systems that maintain or upgrade the current level of services to stores and customers for the foreseeable future,
- Provide web-based information to employees, vendors, licensees, and customers in support of agency operations and administrative actions.

Factor Impacting Information Technology

An important part of the Senate Productivity and Quality Award criteria is the active assessment of customer requirements. While ABC's methodology is constantly evolving, assessments have indicated various customer groups expect more convenient access to store locations, access to information concerning product availability and pricing, improved availability of information on the web, reduced time for processing applications for licenses and other services. Internal requirements for improving business process efficiency and effectiveness also continue to grow as more process owners gain knowledge of process improvement methodologies. These internal and external demands require maintenance and upgrades in existing systems as well as the development of additional electronic delivery methods for vendors and other supporting customer groups. The ever-changing technology utilized for supply chain management is also a key factor on ABC's long-term horizon. While ABC is currently implementing automation and bar code scanning for product distribution and inventory management, other emerging technologies such as RFID may play a role in the future.

The cost of IT goods and services is also a significant concern to ABC. As an Enterprise Fund agency, ABC is charged with operating as a business and to generate significant returns for the Commonwealth. Increases in ABC's cost of technology, driven by VITA transformation will have a direct impact on ABC's ability to meet its revenue requirements and service delivery obligations.

Agency Strategic Plan

Department of Alcoholic Beverage Control

Anticipated Changes / Desired State

Anticipated Changes/Desired State of the Agency's IT Investment Portfolio:

- Store Infrastructure Upgrades--As number of ABC stores increase and type/volume of data transmission increases, the telecom network needs to be upgraded from the existing analog/ISDN/DSL connectivity. This includes support for debit and credit card processing.
- Voice Over IP—ABC's current voice network is antiquated and is in need of replacement. ABC is currently evaluating the network infrastructure requirements necessary to implement a Voice Over IP solution to improve voice stability and reduce long-term costs.
- E-Commerce--ABC is currently evaluating the utilization of various e-commerce strategies to improve services to retail and licensee customers.
- Expand Data Accessibility—ABC is currently working to develop a comprehensive requirements document for its data warehouse. Preliminary analysis shows a need to expand data warehouse capabilities into major areas such as enforcement, finance, wholesale/retail, policy and analysis and numerous other areas to improve the effectiveness of decision-making and profitability of agency operations.
- Standardized Reporting Tool—ABC is currently evaluating replacing Brio with Crystal Enterprise/Business Objects to enable expanded data access and analysis (ties directly to data warehouse efforts), enhanced applications for employees which support improving business processes and service delivery.
- Supply Chain Integration--Increasing distribution supply chain efficiency from supplier to consumer has the potential to increase revenues and profitability. The scope of this project could include the replacement of major systems including the Point of Sale, Inventory Management and Financial Systems.

Agency Information Technology Investments:

	<u>Cost-Fiscal Year 2007</u>		<u>Cost-Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Major IT Projects	\$0	\$0	\$0	\$0
Non-Major IT Projects	\$0	\$1,923,385	\$0	\$380,000
Major IT Procurements	\$0	\$0	\$0	\$0
Non-Major IT Procurements	\$0	\$1,450,700	\$0	\$1,831,700
Totals	\$0	\$3,374,085	\$0	\$2,211,700

Agency Goals

Agency Strategic Plan

Department of Alcoholic Beverage Control

Goal #1:

Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

Goal Summary and Alignment:

The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. This goal is the cornerstone of services to ABC licensees, compliance with alcohol and tobacco laws particularly for underage persons, and the responsible consumption by adults who choose to purchase ABC products. Prevention and education programs and services are provided for all ages through the educational and prevention materials and programs developed by the agency.

The public safety goal closely aligns with the Council's objectives of protecting the public's safety and security, ensuring a fair and effective system of justice and providing a prepared response to emergencies and disasters of all kinds. The prevention efforts in the public safety service area also align with inspiring and supporting Virginians toward healthy lives and strong and resilient families. All of ABC's strategic goals align with the objectives of engaging and informing citizens to ensure we serve their interests.

Statewide Goals Supported by Goal #1

- Engage and inform citizens to ensure we serve their interests.
- Protect the public's safety and security, ensuring a fair and effective system of justice and provide prepared response to emergencies and disasters of all kinds.

Goal #2:

Goal 2 Excellent Customer Service - Enhance services provided to agency customers and stakeholder.

Goal Summary and Alignment:

Quality customer service for ABC involves many of ABC's service areas. In the retail stores, ABC has focused attention on providing convenient locations to Virginia's growing population. Enhanced store design contributes to the current trends in the retail marketplace. ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores.

This goal also addresses quality customer service beyond retail stores to licensees customers, vendors, suppliers, citizens, law enforcement and municipalities in addition to internal employees as customer of each other.

Statewide Goals Supported by Goal #2

- Engage and inform citizens to ensure we serve their interests.
- Protect the public's safety and security, ensuring a fair and effective system of justice and provide prepared response to emergencies and disasters of all kinds.

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Department of Alcoholic Beverage Control

Goal #3:

Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices

Goal Summary and Alignment:

ABC has evolved into a significant source of revenue resulting from store sales, license fees, penalties, and collection of taxes from wine and beer wholesalers. In fiscal year 2005, ABC's sales exceeded \$530 million and total revenue contributions for the state and localities exceeded \$250 million for the first time in ABC's 71-year history. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with generally accepted accounting principles and state administrative procedures.

The revenue goal aligns with the objective of being a national leader in the preservation and enhancement of our economy. And all of ABC's strategic goals align with the objectives of engaging and informing citizens to ensure we serve their interests

Statewide Goals Supported by Goal #3

- Be a national leader in the preservation and enhancement of our economy.
- Protect the public's safety and security, ensuring a fair and effective system of justice and provide prepared response to emergencies and disasters of all kinds.

Goal #4:

Goal 4 Employee Management and Development - Build and maintain a work environment and an employee support climate conducive to performance excellence, full participation and organizational growth.

Goal Summary and Alignment:

A critical part of the ABC mission is the management and development of the workforce. In this area, ABC's priorities have included stemming the tide of departures in sworn-enforcement personnel, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses a biennial survey of organizational health developed and supplements this information with employee focus groups that provide further detail on issues of importance to employees. A quality workforce contributes to the success of the agency particularly in the first three goals of public safety, quality customer service and reliable source of revenue.

Statewide Goals Supported by Goal #4

- Engage and inform citizens to ensure we serve their interests.
- Be recognized as the best-managed state in the nation.
- Protect, conserve and wisely develop our natural, historical and cultural resources.

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Service Area Background Information

Service Area Description

This service area for ABC is defined by the services and functions of the Bureau of Law Enforcement including Education, License Record Management, and Tax Management, in addition the Hearings and Appeals Division. For public safety, ABC's strategic priorities have included the aggressive promotion of zero tolerance for underage access and consumption of alcohol and tobacco, the promotion of responsible selling and serving by ABC licensees, and responsible consumption by adults.

Services Include:

- Annually conducts over 10,000 compliance checks of businesses and licensees concerning underage sales of alcohol and tobacco.
- Issues annual licenses to over 14,000 businesses and retail establishments to sell alcoholic beverages in the Commonwealth. Issues annually over 10,000 one-day banquet and special event licenses.
- Conducts background investigations to annually issue 2,500 new retail, wholesale, and special permit licensees.
- Investigates illegal and criminal activity in licensed establishments and works with local, state and federal law enforcement agencies on these issues.
- Investigates the illegal manufacturing and sales of alcohol (stills and nip joints)
- Participates with state and federal law enforcement investigations and task forces related to anti drug, alcohol, and tobacco issues.
- Promotes fair and equitable business practices through the enforcement of regulations.
- Issues violations for non-compliance with ABC code and regulations, conducts administrative hearings for these violations, and collects civil penalties and fees.
- Tax Management section audits and collects the wholesale wine and malt beverage taxes for all wine and beer amounting to over \$60 million per year.
- Review and approval of all wine and beer products.
- ABC Education section conducts training for thousands of ABC licensees and servers of alcohol on responsible selling and serving.
- ABC Education creates and distributes over 200,000 pieces of prevention literature annually to licensees, schools, and the general public.
- Distributes grants to enhance community prevention coalitions in alcohol prevention and community education initiatives.
- Participates with the Youth Alcohol and Drug Abuse Prevention Project (YADAPP), and the College Alcohol Leadership Council. These efforts are partnerships between various state agencies, educational institutions and ABC that have continued to shape alcohol prevention efforts for the last 20 years.

Service Area Alignment to Mission

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Service Area Statutory Authority

The primary mandates for agency operations are rooted in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

Chapter 1: Definitions & General Provisions

Chapter 2: Administration of Licenses

Chapter 3: Prohibited Practices

Chapter 4: Wine Franchise Act

Chapter 5: Beer Franchise Act

The vast majority of the Department's mandates are covered in §4.1-103, General Powers of Board. Some of these powers include:

- Control the possession, sale, transportation and delivery of alcoholic beverages;
- The Board may hold and conduct hearings and authorize any Board member or agent of the Board to hold and conduct hearings, issue subpoenas, administer oaths and take testimony there under, and make summary decisions, subject to final decision by the Board, on application of any party aggrieved.
- Promulgate regulations in accordance with the Administrative Process Act, in the following areas:
procedural rules for conducting hearings before the Board, advertising, relationship between retailers and wholesalers, manufacturers, wholesale and retail operations and requirements for product approval,
- Grant, suspend, and revoke licenses for the manufacture, bottling, distribution, importation, and sale of alcoholic beverages. Assess and collect civil penalties and civil charges for violations of this title and Board regulations.

Service Area Customer Base

Customer(s)	Served	Potential
Adult alcohol consumers	2,700,000	2,700,000
Businesses licensed to sell alcoholic beverages	14,000	14,000
City & County Law Enforcement Agencies	113	113
Colleges and Universities	72	72
Federal Law Enforcement Agencies	9	9
Prevention Groups (Community Service Boards)	40	40
Virginia's under 21	1,800,000	1,800,000

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Anticipated Changes In Service Area Customer Base

Population growth, as well as economic factors, influences the growth in the number of licensed establishments. The location of this growth has a significant influence on the number of ABC special agents needed in specific localities. ABC conservatively forecasts that the number of licensees will grow between 1,000-2,000 during the next ten years, however, the health of the economy can influence workload through license turnover, increased crime, etc.

Of the approximately 5.3 million legal age Virginians, approximately 50% consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 20 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases.

Population and economic growth and changing demographics are the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow by approximately 600,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores.

Part of ABC's mission is to promote zero tolerance for the underage consumption of alcoholic beverages, which creates a customer base of approximately 1.8 million Virginian's under the age of 21. According to the Journal of the American Medical Association (JAMA), those under 21 consume 20% of all alcoholic beverages sold in the United States. While significant strides have been made in licensee compliance with underage sales laws, most underage drinkers report older siblings and friends as the primary source of alcoholic beverages (primarily beer). ABC works with numerous prevention groups, K-12 schools, colleges and general public to address this underage issue.

ABC is also concerned with adults who consume in an irresponsible manner because of public health and safety issues such as traffic accidents and fatalities, and the high correlation between sexual assaults, domestic violence, and other crimes in which the over consumption of alcoholic beverages is often an issue. While approximately 80% of the drinking population does so in a responsible manner, the remaining 20% consumes 83% of the alcoholic beverages sold in the United States (JAMA). In Virginia during 2003, there were over 27,000 convictions with an average Blood Alcohol Content of .1367. (.08 is the legal limit)

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Service Area Products and Services

- The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. Services include the issuance of licenses to sell wine and beer to retail establishments and restaurants for the wine, beer and spirits. Licenses are also issued for one-time special events to sell wine, beer and spirits. Extensive criminal background investigations are conducted on the individuals associated with the business license application, in addition to a thorough corporate investigation to insure suitability to be issued an ABC license.
- A wide range of other compliance and investigative activities also includes illegal manufacturing and distribution (stills and nip joints), financial investigations and numerous other violations of state laws and regulation. ABC agents work collaboratively with local, state and federal law enforcement groups in these investigations. Agents also serve on state and federal task forces investigating anti drug and other criminal activity.
- ABC's public safety mission is also apparent in the stores environment. Direct services include the aggressive prevention of sales to underage and intoxicated persons. Indirect services include the overall management of per capita consumption through environmental factors such as limiting the number of outlets, hours of availability, and promotional activities.
- Prevention and education services provided by ABC include specialized training, free educational materials, and direct monetary grants. Training examples include training to local law enforcement agencies on the alcohol laws, annual conferences designed to coordinate college prevention efforts, and direct programming such as Seller/Server Training for ABC licensees. Hundreds of thousands of posters, brochures and other printed materials are available to key communities including K-12 schools, colleges, business and community groups free of charge. All print materials can be ordered via ABC's website and many are available for download via an extensive electronic library.
- Annually ABC offers grants to support collaboration among local businesses, community organizations and state agencies to promote zero tolerance for underage alcohol prevention. Funding for these grants is made possible through a federal grant from the Office of Juvenile Justice Delinquency Prevention.
- ABC Enforcement's Tax Management section audits and collects the wholesale wine and malt beverage taxes for all wine and beer sold in the Commonwealth, amounting to nearly \$68 million in FY 2004.
- ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. ABC conducts aggressive compliance monitoring efforts related to the underage sale of alcohol by licensees and state stores and underage sales of tobacco products by retail businesses.

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Factors Impacting Service Area Products and Services

Productivity increases in ABC's enforcement operation are difficult to measure and often misleading. One option is to review agent activity (e.g. licenses issued) per man-hour. While in recent years, per man-hour activity appears to improve, it is largely due to excessive staff turnover of sworn personnel. A 20% reduction in ABC's enforcement budget, large numbers of retirements, increased per-agent workloads and severe salary competitive issues with other local and federal law enforcement agencies caused this turnover. As a result, the number of sworn positions has fallen to its lowest level in many years despite a growing population and customer base. While ABC was able to stem the tide in 2004 with a retention bonus, continued departures are expected to resume in 2005 that will contribute to reduced effectiveness in meeting the service and public safety goals of the agency.

Anticipated Changes To Service Area Products and Services

While ABC is not planning any significant changes in services related to the Enforcement and Regulation of Alcoholic Beverages, significant work force issues will hamper licensing services and the effectiveness of public safety operations.

The Enforcement division is the second largest division at ABC, consisting of over 350 sworn and civilian employees (168 classified and 185 wage). Approximately 140 classified employees are sworn agents with full police authority, and almost all of the wage employees are Student Undercover Agents (civilian) used for the Underage Buyer Program.

With a projected increase in the number of licensees (3% - 5% per year), the agency needs additional agents to ensure laws and regulations are being followed through proper enforcement and education. ABC agents receive specialized training to handle the complex elements of their job and possess full police authority. Local law enforcement agencies on an increasing basis request assistance from our agents for both investigation assistance and prevention and education issues. The budgetary reductions over the past two years have also placed our Enforcement division in jeopardy of a decrease in compliance with statutes and regulations and more and more agents leaving for jobs with higher salaries and fewer responsibilities in other state, local and federal law enforcement agencies.

Enforcement will need to add 15 new agent positions, eight classified Licensing Technicians (currently a new wage position), three additional Security Officers, a criminal analyst position, clerical support, and additional Student Undercover Agents. In addition, the division anticipates 40 retirements within the next five years, with another 20 retirements in ten years. In addition to special agents, key positions that will need to be replaced include Special Agents in Charge (SAC) and Assistant Special Agents in Charge (ASAC).

Service Area Financial Summary

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. This service area has an appropriation of \$12,971,822 which is 3% of the total agency appropriation.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$0	\$12,971,822	\$0	\$12,971,822
Changes To Base	\$0	\$1,107,954	\$0	\$1,401,057
SERVICE AREA TOTAL	\$0	\$14,079,776	\$0	\$14,372,879

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

Service Area Objectives, Measures, and Strategies

Objective 30403.01

Increase Compliance with Underage Alcohol and Tobacco Laws

ABC issues licenses to sell wine and beer to retail establishments and restaurants for the wine, beer and spirits. In addition, licenses are issued for one-time special events to sell wine, beer and spirits. ABC monitors compliance of these licenses with Virginia ABC laws and regulations and issues violations for non-compliance. Effective July 1, 1997, legislation added tobacco enforcement responsibilities to the agency mission including enforcing the state law that prohibits the purchase or possession of tobacco products by minors or the sale of tobacco products to minors. This objective focuses on ABC's efforts to promote zero tolerance for the underage consumption of alcoholic and prohibiting the sale of tobacco products to minors.

This Objective Supports the Following Agency Goals:

- Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

This Objective Has The Following Measure(s):

- **Measure 30403.01.01**

Underage Buyer (UAB) compliance rate for retail alcohol licensees

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 91% compliance rate

Measure Target: Greater than or equal to 93% compliance rate

Measure Source and Calculation:

Number of UAB sales divided by the number of total UAB Checks. Source: Data Warehouse

- **Measure 30403.01.02**

Underage Buyer compliance rate for retail tobacco sales

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 Compliance rate is 87%

Measure Target: Compliance rate of 90%

Measure Source and Calculation:

Number of UAB sales divided by the number of total UAB checks. Source: Data Warehouse

Objective 30403.01 Has the Following Strategies:

- Annually conduct 4,800 alcohol and tobacco underage buyer compliance checks.
- By July 2006, develop a program to educate Licensees about the alcohol and tobacco underage buyer compliance program.

Objective 30403.02

Reduce Administrative Processing Time

ABC issues licenses to retail establishments and restaurants for the sale of wine, beer and spirits. In addition, licenses are issued for one-time special events to sell wine, beer and spirits. The licensee process has multiple steps to complete that are required by statutes and regulations for the citizen requesting the license in addition to the Special Agents and the Licensee Record Management Section of

Service Area Plan

Department of Alcoholic Beverage Control

Enforcement and Regulation of Alcoholic Beverage Control Laws (30403)

the agency. ABC monitors compliance of these licensees with Virginia ABC laws and regulations and issues violations for non-compliance. If violations occur or licensee applications are contested, ABC conducts administrative hearings to adjudicate these issues. The purpose of this objective is streamlining administrative licensing and adjudication processes while balancing the interests of public safety with customer service.

This Objective Supports the Following Agency Goals:

- Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

(The public safety mission of ABC results directly from being the primary agency to regulate the manufacture, distribution, sale, transportation and consumption of alcoholic beverages. This authority comes from Title 4.1 of the Code of Virginia known as the Alcoholic Beverage Control Act.)

This Objective Has The Following Measure(s):

- Measure 30403.02.01

Days to process new retail licensee application

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 timeframe was 64 days to process application

Measure Target: Reduce to 60 days processing time

Measure Source and Calculation:

Number of days from receipt of license application to approval. Source: Data Warehouse

- Measure 30403.02.02

Number of Days from the date of violation to the completion of the Hearings process

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 process was 206 days

Measure Target: 2006 target is 200 days

Measure Source and Calculation:

Average time in days totaled for 4 stages from violation to the completion of the Hearings process. Source: Data Warehouse

Objective 30403.02 Has the Following Strategies:

- Measure .01 -By July 2006, develop standards and criteria for violation reporting and processing time prior to submission to Hearings.
- Measure .01 - Beginning in July 2006, benchmark the hearing process against standardized court process methodology to identify opportunities for streamlining.
- Measure .01 - Develop an e-application process for licensee applications by July 2007.

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

Service Area Background Information

Service Area Description

This service area is defined by the services and functions provided by the following Divisions:

- Public Affairs responds to media and citizen comment, communication of information internally and externally and the design, writing, graphics and production of prevention and education materials.
- Human Resource services include hiring, employee evaluation, workers compensation and safety, and internal employee training.
- Information Technology Services provides development, maintenance and stable operations of computer systems and timely help desk support for end users.
- Property Management Services includes preventive facility maintenance to protect ABC assets and management of the store leasing process for ABC store locations. Opening of new stores, relocation of stores, and renovation of stores is also a major service responsibility.
- Policy, Analysis and Support Services includes the purchasing of goods and services for internal operations and the delivery of supplies to stores and central office. Additional services include development of store location strategy, agency business plan and customer/stakeholder satisfaction surveys.
- Financial Management Services is responsible for all fiscal functions including payroll, budgeting, cash receipts, cash disbursements and financial reporting.
- Internal Audit has agency-wide responsibility for identifying risk, assisting management in developing proper internal controls, conducting agency administrative reviews and investigating all state hotline complaints.

Service Area Alignment to Mission

This service area supports the public safety, customer service and revenue focus of the mission through the management of internal support processes.

Service Area Statutory Authority

The primary mandates for agency operations are rooted in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

- Chapter 1: Definitions & General Provisions
- Chapter 2: Administration of Licenses
- Chapter 3: Prohibited Practices
- Chapter 4: Wine Franchise Act
- Chapter 5: Beer Franchise Act

The vast majority of the Department's mandates are covered in §4.1-103, General Powers of Board. Some of these powers include:

- Buy, import and sell alcoholic beverages other than beer and wine not produced by farm wineries, and to have alcoholic beverages other than beer and wine not produced by farm wineries in its possession for sale.
- Control the possession, sale, transportation and delivery of alcoholic beverages;
- Determine, the locations and localities where government stores shall be established or operated.
- Maintain warehouses for alcoholic beverages and control the storage and delivery of alcoholic beverages to and from such warehouses.
- Lease, occupy and improve any land or building required for the purposes of this title.
- Determine the nature, form and capacity of all containers used for holding alcoholic beverages to be kept or sold under this title, and prescribe the form and content of all labels and seals to be placed thereon

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

Service Area Customer Base

Customer(s)	Served	Potential
ABC Stores	301	301
Employees (FTE and FT Equivalent)	1,692	1,692
Liquor Vendors	149	149
State Government Agencies	20	20
Vendors & Suppliers other than liquor	5,000	0

Anticipated Changes In Service Area Customer Base

This service area supports the work of employees for the internal customers of the agency in support of the mission related functions of the agency. Consequently, changes in the customer base in other service areas will have a direct impact on this services area.

The demographics of ABC's workforce is generally consistent with the overall state workforce demographics. Nearly 68% of all employees are over the age of 40, 45% are female and 35% are minorities. The average age of an ABC employee is 46 years old, with an average length of service at 13 years. ABC has a high number of retirement-eligible employees: 228 employees (24% of FTE positions) within the next six years and an additional 88 employees (10% FTE positions) eligible within 10 years.

The turnover at ABC is considerably higher than the industry norms. Average turnover for the retail industry is 29%, however ABC retail wage positions have a turnover rate of 47%. Turnover for state and local government averages at 7% and ABC average is 12% with higher rates for the Enforcement Division (16%) and the Information Technology Division (20%). Each year, the agency experiences recruiting challenges for several specific positions. Typically, wage employees for the Stores division are difficult to find and retain. In the recent past, hard-to-fill classified positions have included IT Programmer/Analyst (Information Technology Specialist II), Payroll Technicians (Administrative Office Specialist III), Maintenance Repair Worker (Trade Tech. III), Master Mechanic (Trade Tech IV), Graphic Designer (Media Specialist III), Special Agent (Law Enforcement Officer II), and Order Selectors (Stores and Warehouse Specialist II).

One of the most critical drivers of turnover are issues related to employee compensation. Recent studies have demonstrated that state employees are compensated, on average, 10% - 20% below the private sector in comparable industries. In addition, significant salary compression and inversion situations as well as other internal inequities exist. Both issues have had a significant negative impact on ABC employees, and over 50% of all turnover, due to voluntary resignations, is a result of a new job with a higher salary. For ABC, competitors for employment include most retail establishments (store employees), local and federal law enforcement agencies (sworn agents), IT and Fortune 500 companies (IT staff), and other state agencies.

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

Service Area Products and Services

- • Revenue Growth & Internal Controls

Growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state and localities. In fiscal year 2005, ABC's sales exceeded \$500 million and total revenue contributions for the state and localities exceeded \$250 million for the first time in ABC's 71-year history. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with generally accepted accounting principles. For the past three years ABC has received no written audit points from APA audits in addition to no repeat compliance issues being reported in the quarterly comptroller's report. For the past 3 years the agency has maintained 99% rate or better for prompt payment of accounting vouchers.

- • Employee Management & Development

A critical part of the balanced scorecard is the management and development of the workforce. In this area, ABC's priorities have included stemming the tide of departures in sworn-enforcement personnel, developing better ways to recognize and reward high performing employees, improving diversity, improving the health and safety of ABC's employees, and expanding learning opportunities. As required by the Baldrige criteria, ABC uses multiple modes of listening to develop a comprehensive picture of employee needs and satisfaction levels. ABC uses a biennial survey based on a survey of organizational health developed by the state of Texas. ABC supplements this information with employee focus groups that provide further detail on issues of importance to employees. In response to an issue relating to communication, ABC started an email bulletin that each employee receives as frequently as weekly.

- • Process Management

Another significant opportunity identified through the annual Baldrige assessment was to develop additional skills in process management and improvement. ABC partnered with Chesterfield County and the Philpot Manufacturing Extension Partnership to develop a process improvement-training program for its employees. The inaugural class has completed its course work and is currently working to complete process improvement projects such as evaluating ways to improve minority procurement. ABC's ultimate goal is to require all process owners to complete this training, document and flowchart all agency processes, and develop a culture of process management, measurement, and continuous improvement.

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

Factors Impacting Service Area Products and Services

- Increasing population

The continued growth in revenue and profits is directly correlated to store expansion and remodeling with the ability to carry products in demand by consumers. As population and demographics change, store locations will need to adjust accordingly. For example, in Northern Virginia the population is projected to significantly increase which translates to the need for the placement of additional retail stores. New stores are expected to continue to be the cornerstone for sales growth. Continued funding for new store openings and store modernization is necessary to continue the demonstrated sales revenue increase. Increasing population also impacts regulatory requirements through growth in the number of licensed establishments as well as increasing numbers of legal, underage and irresponsible consumers.

Anticipated Changes To Service Area Products and Services

ABC is already using e-commerce to provide web-based application and payment processing for the banquet licensing process. ABC expects to explore the feasibility of additional opportunities such as other license applications, licensee ordering, and retail sales to the public. The primary driver of these e-commerce opportunities will be the financial viability of the proposal taking into consideration process efficiencies and the increased cost of credit card processing.

Service Area Financial Summary

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. This service area receives an appropriation of \$20,014,806, which is 5% of the total agency appropriation

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$0	\$20,014,806	\$0	\$20,014,806
Changes To Base	\$0	\$1,075,940	\$0	\$0
SERVICE AREA TOTAL	\$0	\$21,090,746	\$0	\$20,014,806

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

Service Area Objectives, Measures, and Strategies

Objective 80101.01

Maintain Compliance With State Administrative And Financial Policies

Growing revenues and maintaining accountability and the public's trust continue to be a priority for ABC. The growth in stores and new items continues to produce record levels of sales and revenue contributions to the state and localities. At the same time, ABC gives equal weight to maintaining the public's trust through strong internal controls and compliance with generally accepted accounting principles. Three areas will be measured annually in this objective: 1) the APA number of management points assessed 2) the percent of prompt pay accounting vouchers completed and 3) the number of times ABC is out of compliance with DOA.

This Objective Supports the Following Agency Goals:

- Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices

This Objective Has The Following Measure(s):

- **Measure 80101.01.01**

APA: Number of Management points assessed

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 0 APA Points

Measure Target: 0 APA Points assessed

Measure Source and Calculation:
Annual Audit

- **Measure 80101.01.02**

Number of times ABC is out of compliance on DOA Compliance Report

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 2 times out of compliance

Measure Target: 0 times out of compliance

Measure Source and Calculation:
Annual Audit

- **Measure 80101.01.03**

Increase percent of discretionary procurement to SWAM vendors

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: Baseline to be determined by January 2006

Measure Target: Target to be determined by January 2006

Measure Source and Calculation:
SWAM procurement dollars divided by total agency procurement dollars

Objective 80101.01 Has the Following Strategies:

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

- Annually in October review management letters from the APA audit and implement corrective actions in order to avoid audit points in future.
- Review quarterly DOA compliance report and take immediate corrective action.P
- Provide education for managers about DOA Compliance Report and the significance for compliance in November 2006.
- Develop a SWAM procurement training program by July 2006.

Objective 80101.02

Increase Transfers of Profits and Taxes

As an Enterprise Agency, ABC operates much like a private business using performance metrics to monitor activity throughout much of the organization. ABC generates revenues in the form of profits and taxes including, state taxes, sales tax, wine liter tax and malt beverage tax. These funds are transferred to the General Fund, other state agencies and localities on an annual basis. Estimates of these revenues are included in the Governor's Annual Estimate of Revenues, based on forecasts prepared by ABC.

This Objective Supports the Following Agency Goals:

- Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices

This Objective Has The Following Measure(s):

- **Measure 80101.02.01**

Combined profits & taxes annually transferred to the General Fund & Localities

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: FY 2004 - \$155,517,635

Measure Target: FY 2008 - increase by 18%

Measure Source and Calculation:

ABC Profits plus state taxes plus general sales tax equals contributions to General Fund. Source: Data Warehouse

- **Measure 80101.02.02**

Accuracy of ABC Profit Forecasts

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: Baseline to be determined by July 1, 2006

Measure Target: Target to be determined after baseline

Measure Source and Calculation:

Source: ABC financial data. Comparison of actual vs. forecasted sales, expenses and profits.

Objective 80101.02 Has the Following Strategies:

- In FY 2007 open 10 new stores and in FY 2008 open 8 new stores.
- Develop an operating budget at the beginning of each fiscal year and monitor monthly.

Objective 80101.03

Reduce Employee Turnover Rate

The turnover at ABC is considered at two levels: the retail industry, which represents wage employees

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

who primarily staff stores and then classified employees. In FY03 the wage turnover rate was 53% and in FY 2004 it decreased to 47%. Classified turnover rate in FY 2003 was 10% and I FY2004 increased to 12%. Average turnover rate for the retail industry is 29% and turnover for state and local government averages at 7%. Reducing the turnover rate impacts the agency workforce and the customer service provided by the agency.

This Objective Supports the Following Agency Goals:

- Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices

This Objective Has The Following Measure(s):

- **Measure 80101.03.01**

Reduce classified turnover rate

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 12%

Measure Target: 2008 - 10%

Measure Source and Calculation:

Number of employees separated in 12 months divided by the number of classified employees in the same 12 month period. Source: data Warehouse

- **Measure 80101.03.02**

Reduce wage employee turnover rate

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 47%

Measure Target: 2008 - 28%

Measure Source and Calculation:

Number of employees separated in 12 months divided by the number of wage employees in the same 12 month period. Source: Data Warehouse

Objective 80101.03 Has the Following Strategies:

- Address internal equity gaps for classified employees by July 2006.
- Analyze causes of turnover for classified employees & develop plan to address priority issues by July 2006.
- Seek approval to implement limited benefit options for wage employees by July 2006.

Objective 80101.04

To ensure that resources are used efficiently and programs are managed effectively, and in a manner consistent with applicable state and federal requirements

This is based in the Management Scorecard that grades agencies on five criteria: Human Resources Management, Government Procurement, Financial Management, Technology, and Performance Management

This Objective Supports the Following Agency Goals:

- Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

Service Area Plan

Department of Alcoholic Beverage Control

Administrative Services (80101)

- Goal 2 Excellent Customer Service - Enhance services provided to agency customers and stakeholders
- Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices
- Goal 4 Employee Management and Development - Build and maintain a work environment and an employee support climate conducive to performance excellence, full participation and organizational growth.

This Objective Has The Following Measure(s):

- **Measure 80101.04.04**

Measure Type: Output

Measure Frequency: Annually

Measure Baseline: 100%

Measure Target: 100%

Measure Source and Calculation:

Percent of Governor's Management scorecard categories marked as meets expectations for the agency.

Number of categories that agency meets expectations divide by equals percentage

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

Service Area Background Information

Service Area Description

Services Include:

- Operate over 300 retail stores throughout the state, controlling access to distilled spirit products in the Commonwealth.
- Ensure equitable service throughout the Commonwealth using a sophisticated store location process to maximize customer service and profitability.
- Provide over 2,000 products for sale including non alcoholic mixers and Virginia Lottery tickets.
- Service 3,600 restaurants licensed to sell mixed beverages in the Commonwealth.
- Conduct over 20 million customer transactions generating in excess of \$532 million in sales in FY 2005.

Service Area Alignment to Mission

This service area aligns with the ABC mission in regards to operating efficient, conveniently located retail outlets, providing excellent customer service and generating revenue for the Commonwealth.

Service Area Statutory Authority

The primary mandates for agency operations are rooted in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

Chapter 1: Definitions & General Provisions

Chapter 2: Administration of Licenses

Chapter 3: Prohibited Practices

Chapter 4: Wine Franchise Act

Chapter 5: Beer Franchise Act

The vast majority of the Department's mandates are covered in §4.1-103, General Powers of Board. Some of these powers include:

- Buy, import and sell alcoholic beverages other than beer and wine not produced by farm wineries, and to have alcoholic beverages other than beer and wine not produced by farm wineries in its possession for sale.
- Control the possession, sale, transportation and delivery of alcoholic beverages;
- Determine, the locations and localities where government stores shall be established or operated.
- Maintain warehouses for alcoholic beverages and control the storage and delivery of alcoholic beverages to and from such warehouses.
- Lease, occupy and improve any land or building required for the purposes of this title.

Service Area Customer Base

Customer(s)	Served	Potential
ABC Store Customers (annually transactions)	20,000,000	20,000,000
Mixed Beverage Licensees	3,600	3,600

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

Anticipated Changes In Service Area Customer Base

Of the approximately 5.3 million legal age Virginians, approximately 50% consume alcoholic beverages and are direct customers of ABC stores. On an annual basis, Virginia ABC conducts over 20 million customer transactions but it is not possible to know the frequency that individual customers visit and make purchases. As the sole regulatory authority over the manufacture, transportation, distribution, sale and consumption of alcoholic beverages in Virginia, primary customers also include the 3,600 restaurants required by statute to purchase distilled spirits from state stores. Population growth, as well as economic factors, influences the growth in the number of licensed establishments

In this service area, a priority for this biennium has been the expansion of the store network. Throughout most of the 1980's and 90's, the number of ABC stores remained constant as the population of Virginia grew. During the last four years, ABC expanded its network using a sophisticated planning model that uses a combination of geographic, demographic and financial analysis to identify specific locations that can increase service and maximize profitability. Presently, the population served by each ABC store is equivalent to levels in the mid-80's and will continue to improve through the end of FY 2006. By the end of FY 2006, approximately 325 stores will be in operation. At the same time, ABC created a design team to develop a more professional look for existing stores. During the last three years, 38 stores have been modernized or relocated and numerous others have received additional lighting to improve the shopping environment.

Demographic and economic growth is the primary driver of changes to ABC's customer base. In the next 10 years, the census bureau forecasts Virginia to grow by approximately 600,000 people. The growth in the number of people as well as the location of such growth has a direct impact on ABC's ability to provide services such as the number and location of ABC stores. Historically, this growth has been focused between Northern Virginia and Tidewater, leading to a significant expansion of the store network in these areas. Consumption patterns also play an important role in ABC services. The number of distilled spirit products available in the marketplace has grown tremendously in recent years, which is contributing to slight increases in store size to ensure enough space is available to carry products to meet customer demand. At the same time per capita dollar and volume purchases have increased slightly in recent years and is expected to continue during the planning horizon.

Service Area Products and Services

- Quality customer service for ABC involves many of ABC's service areas. In the stores area, ABC has focused attention on providing convenient retail stores to Virginia's growing population. Using a sophisticated planning model that utilizes GIS mapping technology, ABC has opened 38 stores in the last three years and is planning on continuing with growth in the next biennium (but at a slower rate). ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns.

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

Factors Impacting Service Area Products and Services

- Pending litigation/legislation

ABC is a party to a lawsuit currently before the Fourth Circuit Court of Appeals. In the initial court proceeding, the judge struck down certain portions of the ABC Act as unconstitutional. Among these were the provisions restricting ABC's product line to only distilled spirits and Virginia Wine. It appears one of two courses is possible, 1) removing all wine products from ABC stores, or 2) allowing state stores to carry a broader selection of alcoholic beverages. In anticipation of this ruling, ABC is not replenishing wine supplies and most stores are completely depleted.

- Changing Marketplace

The overall retail environment influences the public's expectation of ABC's shopping environment. Survey and comment cards indicate that customer's desire improved lighting and appearance of ABC stores to make them more like a private retail establishment. In addition, the growth in distilled spirit products in the market place means ABC has to adjust the breadth and depth of its product line to meet customer demand and maintain sales growth.

Anticipated Changes To Service Area Products and Services

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. By the end of FY 2006, the number of ABC stores should reach 325 and will need to grow by four to six stores per year to maintain service levels throughout the next biennium. ABC also expects continued growth in the variety of products offered in the marketplace and individual ABC stores that may necessitate slightly larger store sizes in the future.

- Workforce Factors

Given the volume of growth expected in the stores, the agency projects at least 70 new classified positions within the next five years and another 20 new classified positions within the next ten years. Wage employees will need to increase substantially, and 30% of retirement-eligible employees will retire within five years, jumping to 50% in ten years. Key positions identified for succession planning include Regional Managers (most are expected to retire), Director and Assistant Director positions

Recent state legislative action regarding Sunday sales has resulted in 50 ABC stores opening for business on Sundays, beginning July 4, 2004. If sales on Sundays meet or exceed projections, it is possible that the General Assembly may pass further legislation for additional ABC stores to have operations on Sundays in other areas. This may result in increased recruitment and retention efforts, as additional P-14 staff will be needed to fill gaps where current employees are unable to work, refuse to work or leave the agency.

Service Area Financial Summary

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. This service area has an appropriation of \$62,950,768, which is 14% of the total agency appropriation.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$0	\$62,950,768	\$0	\$62,950,768
Changes To Base	\$0	\$6,232,369	\$0	\$8,058,435
SERVICE AREA TOTAL	\$0	\$69,183,137	\$0	\$71,009,203

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

Service Area Objectives, Measures, and Strategies

Objective 80102.01

Maintain ABC Store Underage Buyer (UAB) Compliance

Increasing the rate of compliance of ABC stores with ABC's ID checking policy and underage sales laws have been a priority because of the high number and frequent turnover of part-time store clerks. To address this issue, ABC utilizes an in-house training program called Retail 101 to provide clerks with training on how and when to check ID's. ABC Special Agents conduct underage buy checks at ABC stores in addition to the Mystery Shopper Program compliance checks. ABC's policy is to request identification when customers appear to be under the age of 30.

This Objective Supports the Following Agency Goals:

- Goal 1 Effective Public Safety ~ Improve public safety through increased compliance and responsible consumption

This Objective Has The Following Measure(s):

- Measure 80102.01.01

UAB compliance rate for ABC Stores

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 97%

Measure Target: Greater than or equal to 97%

Measure Source and Calculation:

Number of UAB sales divided by the number of total UAB sales. Source: Data Warehouse

Objective 80102.01 Has the Following Strategies:

- Annually visit all ABC stores for underage buyer compliance.
- By January 2007 develop a program for ABC agents to train new ABC store employees about underage buyer compliance.

Objective 80102.02

Increase Customer Satisfaction

Quality customer service for ABC involves many of ABC's service areas. In the stores area, ABC has focused attention on providing convenient retail stores to Virginia's growing population. Using a sophisticated planning model that utilizes GIS mapping technology, ABC has opened 38 stores in the last three years and is planning on continuing with growth in the next biennium (but at a slower rate). ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. ABC measures customer satisfaction in several areas and continues store modernizations.

This Objective Supports the Following Agency Goals:

- Goal 2 Excellent Customer Service - Enhance services provided to agency customers and stakeholders

This Objective Has The Following Measure(s):

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

- **Measure 80102.02.01**

- Increase number of stores meeting service standards compliance rate***

- Measure Type:** Outcome **Measure Frequency:** Annually

- Measure Baseline:** Baseline is the current annual average of 72%

- Measure Target:** 2008 - 80% service standard compliance rate

- Measure Source and Calculation:**

- Number of stores checked divided by the Mystery Shopper Program and the number of stores meeting service standards. Source: Data Warehouse

- **Measure 80102.02.02**

- Increase the number of stores meeting design standards***

- Measure Type:** Outcome **Measure Frequency:** Annually

- Measure Baseline:** to be Determined by July 2006

- Measure Target:** To be determined by July 2006

- Measure Source and Calculation:**

- Design Standards to be determined by July 2006

- **Measure 80102.02.03**

- Maintain acceptable ABC store density***

- Measure Type:** Outcome **Measure Frequency:** Annually

- Measure Baseline:** 2004 - 25, 209 per store

- Measure Target:** 2008 - 23,000 per store

- Measure Source and Calculation:**

- Virginia population divided by the number of ABC stores equals population per ABC Store.

- Data Source: US Census and ABC New Store Business Plan.

- Note to DPB: There was some discussion concerning the political sensitivity of this measure.

- This has been a measure with targets in VA Results for last five years with no comments from the public or community groups. Measure was reworded to be more neutral. While the density shows some growth, the level of stores relative to population is equivalent to the mid 1980's and is still far below neighboring states. ABC believes this to be an important measure that directly supports its funding requests for new stores.

- **Measure 80102.02.04**

- Overall customer satisfaction with ABC Stores by annual customer survey results***

- Measure Type:** Output **Measure Frequency:** Annually

- Measure Baseline:** 2004 - 91 % Satisfied

- Measure Target:** 2008 - Greater than or equal to 91%

- Measure Source and Calculation:**

- Percent of store customers responding "very satisfied" on store survey. Source: Data Warehouse

Objective 80102.02 Has the Following Strategies:

- By July 2007, develop training for store employees on customer service and product knowledge.

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Control Retail Store Operations (80102)

- By July 2007, develop product knowledge web site and electronic training program that would reward employees for completion.
- Develop store design standards by February 2006.
- In FY 2007 open 10 new stores and in FY 2008 open 8 new stores.
- Annually conduct in-store customer surveys.
- Annually visit all ABC stores for underage buyer compliance.
- By January 2007 develop a program for ABC agents to train new ABC store employees about underage buyer compliance.

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Purchasing, Warehousing and Distribution (80103)

Service Area Background Information

Service Area Description

Services Include:

- Manage a 300,000 square foot central distribution center in Richmond (currently undergoing major renovation including the installation of racks and conveyors).
- Manage a warehouse inventory of over 2,500 products with an average inventory exceeding 250,000 cases and a volume exceeding 3.2 million cases annually.
- Process receipts from vendors averaging over 10 tractor-trailer loads per day.
- Fill and ship orders to over 300 stores, most on a weekly basis.
- Process vendor payments of over \$270 million annually.
- Manage product pricing; discount programs, and vendor promotions.
- Manage product inventory and merchandising including shelf management, displays and central inventory management.
- Offer special order services such as in-store specialty item catalogs and special orders for merchandise not carried by ABC.

Service Area Alignment to Mission

This service area directly aligns with the ABC mission of controlling the distribution of alcoholic beverages and enforcement of the laws of the Commonwealth pertaining to alcoholic beverages and youth access to tobacco.

Service Area Statutory Authority

The primary mandates for agency operations are rooted in state statutes. Title 4.1 of the Code of Virginia is known as the Alcoholic Beverage Control Act and includes:

Chapter 1: Definitions & General Provisions

Chapter 2: Administration of Licenses

Chapter 3: Prohibited Practices

Chapter 4: Wine Franchise Act

Chapter 5: Beer Franchise Act

The vast majority of the Department's mandates are covered in §4.1-103, General Powers of Board. Some of these powers include:

- Buy, import and sell alcoholic beverages other than beer and wine not produced by farm wineries, and to have alcoholic beverages other than beer and wine not produced by farm wineries in its possession for sale.
- Control the possession, sale, transportation and delivery of alcoholic beverages;
- Determine, the locations and localities where government stores shall be established or operated.
- Maintain warehouses for alcoholic beverages and control the storage and delivery of alcoholic beverages to and from such warehouses.
- Lease, occupy and improve any land or building required for the purposes of this title.
- Determine the nature, form and capacity of all containers used for holding alcoholic beverages to be kept or sold under this title, and prescribe the form and content of all labels and seals to be placed thereon.

Service Area Customer Base

Customer(s)	Served	Potential
ABC Mixed Beverage Licensees	3,600	3,600
ABC Store Customers (annually transactions)	20,000,000	20,000,000
ABC Stores	301	301
Liquor Vendors	149	149

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Purchasing, Warehousing and Distribution (80103)

Anticipated Changes In Service Area Customer Base

ABC expects to continue to expand the number of stores during the biennium to achieve and maintain a one store per 23,000-person ratio. By the end of FY 2006, the number of ABC stores should reach 325 and will need to grow by four to six stores per year to maintain service levels throughout the next biennium.

Population growth is also a driver of changes in customer base. Of the 5.3 million legal age Virginians, 50% consume alcoholic beverages and are potential customers of ABC. In the next 10 years, the census bureau forecasts Virginia to grow by approximately 600,000 people. Demographic trends such as the aging of the population may also be a factor in changing ABC's customer base.

Service Area Products and Services

- The primary services for this area center around two main functions: 1) Product distribution including receiving, storing and distributing product through the warehouse, and 2) product management including product listings, pricing, discounts, inventory management, shelf management and several others.
- For the product distribution area, ABC is required to receive, store and ship distilled spirits, mixers and store supplies to over 300 stores. As a bailment operation, suppliers actually own the vast majority of inventory stored in ABC's warehouse. ABC houses over 250,000 cases in its Richmond warehouse and ships over 3.2 million cases annually. On a daily basis, ABC receives shipments from suppliers, prepares orders and ships over 12,000 cases with seasonal spikes exceeding 20,000 cases per day during the Christmas holiday season.

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Purchasing, Warehousing and Distribution (80103)

Factors Impacting Service Area Products and Services

For the warehouse, the most important critical success factors are the capacity to maintain an adequate inventory of the variety of products in demand and the ability to efficiently move the products from receipt to shipment. In recent years, the growth in the number of items available for sale, the increase in sales volume, the increase in number of stores, and workforce issues created significant problems that were impacting ABC's customer service and revenue.

The number of items carried by the Department has almost tripled in the last two decades, growing from approximately 800 items in 1981 to over 2,500 in 2004. The Department's growth in product lines is consistent with national trends and new items have contributed significant incremental revenues from retail and licensee customers. The dynamic nature of the distilled spirits market is expected to continue as distillers develop more innovative ways to market their product.

The warehouse employs nearly 50 employees, both classified and wage, and continuously recruits for Order Selectors. The warehouse is responsible for "picking" or filling orders by the stores for cases of alcohol, and then loading the trucks for delivery. Turnover is high due to the manual requirements of the work environment and a high level of worker's compensation injuries.

In 2004, ABC utilized a distribution consultant to analyze its throughput and capacity limitations and develop an RFP for racking and automating the 300,000 square foot central distribution center. Presently, the system is under construction and is slated to begin operation in August 2005. The new system significantly expands storage capacity for existing and new items and will use automation to improve labor productivity and reduce injuries that result in lost time from work, medical expenses and increasing insurance premiums.

Anticipated Changes To Service Area Products and Services

Virginia ABC projects that the number of products will exceed 3,000 in the next ten years as distillers seek innovative ways to expand the marketplace to compete with beer and wine. By 2012, ABC expects a 40% growth in the number of orders and a 30% increase in volume. The automated system currently being implemented will give ABC the capacity and throughput to meet this increase.

Another potential issue is the litigation currently before the Fourth Circuit Court of Appeals. ABC is a party to a lawsuit currently before the Fourth Circuit Court of Appeals. In the initial court proceeding, certain portions of the ABC Act were ruled to be unconstitutional. Among these were the provisions restricting ABC's product line to only distilled spirits and Virginia Wine. It appears one of two courses is possible, 1) removing all wine products from ABC stores, or 2) allowing state stores to carry a broader selection of alcoholic beverages. In anticipation of this ruling, ABC is not replenishing wine supplies and most stores are completely depleted. While removing Virginia Wine will not impact ABC's operation dramatically, adding a vast array of non-Virginia wines could have significant impacts on warehouse and store operations.

Service Area Plan

Department of Alcoholic Beverage Control

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Service Area Financial Summary

The Department of Alcoholic Beverage Control operates as a Non-General/Enterprise Fund Agency which means the cost of providing goods and services are recovered solely through the sale of alcoholic beverages, license fees and other revenues. This service area has an appropriation of \$348,831,535, which is 78% of the total agency appropriation. This appropriation includes \$329,800,000 for the costs of goods obtained for resale, which is 74.15% of the appropriation for this service area.

	<u>Fiscal Year 2007</u>		<u>Fiscal Year 2008</u>	
	General Fund	Nongeneral Fund	General Fund	Nongeneral Fund
Base Budget	\$0	\$348,831,535	\$0	\$348,831,535
Changes To Base	\$0	(\$2,068,542)	\$0	\$17,403,979
SERVICE AREA TOTAL	\$0	\$346,762,993	\$0	\$366,235,514

Service Area Plan

Department of Alcoholic Beverage Control

Alcoholic Beverage Purchasing, Warehousing and Distribution (80103)

Service Area Objectives, Measures, and Strategies

Objective 80103.01

Provide Efficient and Effective Warehouse and Inventory Management

ABC offers a wide product selection throughout the store network with each store having a customized product mix based on its demographics and sales patterns. In addition, ABC offers a special order catalog for new and high-end products not currently available in individual stores. ABC maintains a 97% stock of product inventory in a store. Products are stored in a central warehouse in Richmond and shipped to retail stores throughout the state. Inventory turns measures the number of times capital invested in goods to be sold turns over in a year. Increasing inventory turns reduces holding costs and impacts profitability. Items that turn over more quickly increase responsiveness to changes in customer requirements while allowing the replacement of obsolete items. Warehouse efficiency is a function of labor productivity that is measured by the number of cases shipped relative to the labor used.

This Objective Supports the Following Agency Goals:

- Goal 2 Excellent Customer Service - Enhance services provided to agency customers and stakeholders
- Goal 3 Reliable Source of Revenue Growth ~ Generate increasing revenues while promoting sound business practices

This Objective Has The Following Measure(s):

- **Measure 80103.01.01**

Maintain annual inventory turn rate of 7.6 or greater per year

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 turnover rate is 7.6

Measure Target: 2008 - Greater than or equal to turnover rate of 7.6

Measure Source and Calculation:

Costs of goods sold divided by average inventory. Source: Data Warehouse

- **Measure 80103.01.02**

Reduce the percentage of stockouts

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: 2004 - 97% product available

Measure Target: 2008- Greater than or equal to 97%

Measure Source and Calculation:

Percent of products available in store on the day store shipment is received. Source: Data Warehouse

Service Area Plan

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Alcoholic Beverage Purchasing, Warehousing and Distribution (80103)

- **Measure 80103.01.03**

Warehouse Labor Productivity

Measure Type: Outcome **Measure Frequency:** Annually

Measure Baseline: Baseline to be determined by January 2007

Measure Target: Target to be determined by January 2007

Measure Source and Calculation:

Cases shipped divided by man-hours. Source: Data Warehouse

Objective 80103.01 Has the Following Strategies:

- Develop training program for Store Managers by January 2007 on inventory management.
- Set targets by product categories for stores to achieve by January 2007.
- Annually improve shipping accuracy.
- Strategies for warehouse labor productivity to be developed in January 2007